


ANNUAL REPORT

year ended August 31, 1965



KELSEY WHEEL COMPANY, LIMITED



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KELSEY WHEEL COMPANY, LIMITED

DIRECTORS

Frank P. Coyer, Jr.
J. G. Crean
Lawrence W. Downie
W. A. Harrison
Geo. W. Kennedy
W. D. MacDonnell
W. C. McIvor

OFFICERS

W. D. MacDonnell — Chairman of the Board
W. A. Harrison — President
Claude M. Nash — Vice-President
W. C. McIvor — Secretary-Treasurer

TRANSFER AGENT AND REGISTRAR

National Trust Company, Limited
Toronto, Montreal, Winnipeg & Vancouver

AUDITORS

Touche, Ross, Bailey & Smart

FINANCIAL HIGHLIGHTS

	1965	1964
Net Earnings	\$1,143,496.00	\$1,155,892.00
Earned per share	1.04	1.05
Working capital	3,506,432.00	4,704,325.00
Current ratio	2.5	4.1

TO THE SHAREHOLDERS OF KE

On behalf of your Board of Directors, we submit the Company's Consolidated Balance Sheet at August 31, 1965, Consolidated Statements of Net Earnings and Retained Earnings and the Report of the Auditors to the Shareholders. The year has been one of major capital expansion and relative stability of earnings. The upward trend in the automotive industry continued throughout the year.

SALES AND EARNINGS

Sales volume on a comparative basis showed a satisfactory improvement over the previous year. The effect of the increased sales was not reflected in increased earnings due to dislocation expenses necessitated by the expansion programme and pre-production expenses on new equipment. Earnings for the year were \$1,143,496 or \$1.04 per share compared with \$1,155,892 or \$1.05 per share the previous year. The earnings of our subsidiary company, Eureka Foundry and Manufacturing Co. Limited showed a satisfactory increase but abnormal expenses at Windsor more than offset this gain. The net earnings reflect full provision for the applicable taxes on income even though the actual liability for the major portion of the taxes will not arise until future years.

FINANCIAL POSITION

Working capital amounted to \$3,506,432, a decrease of \$1,197,893 from the previous year. The ratio of current assets to current liabilities was 2.5 compared with 4.1 in 1964. The reduction in working capital arose from financing a significant portion of the expansion programme from current funds.

The Company qualifies under Income Tax laws as having a degree of Canadian ownership which permits the amortization of new equipment over a two year period. The new building in Windsor qualifies for amortization over a five year period as it was situated in a designated area at the time of construction. The new equipment at Eureka also qualifies for accelerated amortization. It is the intention of the company to claim this maximum capital cost allowance for income tax purposes and provide on a current basis for the deferred tax payable when capital cost allowance recorded in our accounts exceeds the amount allowable for income taxes.

CAPITAL EXPANSION PROGRAMME

Capital expenditures during the year at Windsor and Woodstock amounted to \$6,930,000. A new building that adds approximately 130,000 square feet of floor space to our manufacturing facilities in Windsor was completed in June 1965. In order to meet a further increase in the demand for automotive products your Directors approved capital expenditures for equipment that will provide double the original

KEY WHEEL COMPANY, LIMITED

additional wheel making capacity we contemplated in our last Annual Report. The original equipment programme has been completed and production is gradually being increased to normal. The second phase has not advanced to the try out stage and it would appear that it will be some six months from the date of this Report before normal production capacity is achieved. The expanded foundry capacity at Woodstock is scheduled to come into operation in November 1965. The capital expenditures have been financed from the proceeds of the \$3,500,000 5¾% Serial Bonds issued and the remainder from current working capital. A further \$1,500,000 Serial Bonds were available for issue subsequent to August 31, 1965.

OUTLOOK

Looking toward the future sales should show a major increase in the coming year. Earnings for at least the first half of the year will be adversely affected by abnormal pre-production, start up and development costs on new equipment. Cost penalties will also be incurred due to dislocation of manufacturing processes and additional handling of material. The longer range prospects of your company would appear to be most favourable. The Canada — United States Automotive Trade Agreement has now been passed by the United States Congress. This arrangement has already generated a substantial increase in volume for our facilities. It is only realistic to point out that selling prices are under much greater pressure from competitive sources with the removal of duty on automotive parts.

Your Directors wish to express their appreciation for the contribution to the year's results made by all employees.

Respectfully Submitted,

W. D. MACDONNELL

Chairman of the Board

W. A. HARRISON

President

Windsor, Ontario
October 8, 1965

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CONSOLIDATED BALANCE SH
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ASSETS

	<u>1965</u>	<u>1964</u>
CURRENT ASSETS		
Cash	\$ 821,313	\$3,350,268
Accounts receivable	1,098,903	888,776
Inventories of raw materials, work in process, finished products and supplies, at the lower of cost or market	3,118,286	1,855,954
Income taxes recoverable	475,000	—
Special tooling for current production — net (Note 1)	161,199	27,545
Prepaid taxes, insurance and other expenses	121,292	85,255
Total current assets	<u>5,795,993</u>	<u>6,207,798</u>
 PROPERTY, PLANT AND EQUIPMENT		
—at cost less accumulated depreciation		
Land	88,167	69,896
Buildings and land improvements	3,034,209	1,221,477
Machinery and equipment	9,708,418	4,723,571
	<u>12,830,794</u>	<u>6,014,944</u>
Less accumulated depreciation	4,404,492	4,262,031
Total property, plant and equipment	<u>8,426,302</u>	<u>1,752,913</u>

Approved on behalf of the Board

W. C. McIVOR, *Director*

\$14,222,295 \$7,960,711

W. A. HARRISON, *Director*

AUDITORS' REPORT T

We have examined the consolidated balance sheet of Kelsey Wheel Company, Limited and subsidiary company as at August 31, 1965 and the related consolidated statements of net earnings and earnings retained for use in the business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

*Toronto, Ontario,
October 5, 1965.*

MPANY, LIMITED

(In accordance with the laws of Ontario)

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STATEMENT AS AT AUGUST 31, 1965

(Figures for 1964)

LIABILITIES AND SHAREHOLDERS' INVESTMENT

	<u>1965</u>	<u>1964</u>
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,863,662	\$ 744,523
Due to affiliated company	81,193	—
Payrolls	202,174	141,548
Dividend payable September 1, 1965	137,500	—
Taxes on income	5,032	617,402
Total current liabilities	<u>2,289,561</u>	<u>1,503,473</u>
OTHER LIABILITIES		
Deferred taxes on income relating to the excess of depreciation allowable for tax purposes over amounts provided for financial reporting purposes	1,382,000	—
5¾% Serial Bonds—Authorized \$5,000,000 Issued—\$3,500,000 maturing serially \$500,000 on October 1 in each of the years 1966 to 1972	3,500,000	—
Total other liabilities	<u>4,882,000</u>	<u>—</u>
SHAREHOLDERS' INVESTMENT		
Capital stock		
Authorized — 1,500,000 shares without par value		
Issued — 1,100,000 shares	1,125,000	1,125,000
Earnings retained for use in the business (Note 2)	5,925,734	5,332,238
Total shareholders' investment	<u>7,050,734</u>	<u>6,457,238</u>
	<u>\$14,222,295</u>	<u>\$7,960,711</u>

COMMITMENTS AND CONTINGENCIES (Note 3)

The accompanying notes are an integral part of these financial statements.

THE SHAREHOLDERS

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of net earnings and earnings retained for use in the business present fairly the consolidated financial position of Kelsey Wheel Company, Limited and its subsidiary at August 31, 1965 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE, ROSS, BAILEY & SMART
Chartered Accountants.

KELSEY WHEEL COMPANY, LIMITED
AND
SUBSIDIARY COMPANY

**CONSOLIDATED STATEMENT OF EARNINGS RETAINED FOR USE
IN THE BUSINESS**

FOR THE YEAR ENDED AUGUST 31, 1965

(With comparative figures for 1964)

	<u>1965</u>	<u>1964</u>
Balance at beginning of year	\$5,332,238	\$4,776,346
Net earnings for the year	<u>1,143,496</u>	<u>1,155,892</u>
	6,475,734	5,932,238
Dividends paid and payable	<u>550,000</u>	<u>600,000</u>
Balance at end of year (Note 2)	<u>\$5,925,734</u>	<u>\$5,332,238</u>

The accompanying notes are an integral part of these financial
statements.

CONSOLIDATED STATEMENT OF NET EARNINGS

	<u>1965</u>	<u>1964</u>
Net earnings before providing for the following	<u>\$2,676,928</u>	<u>\$2,638,364</u>
Deduct		
Depreciation	263,830	250,572
Directors' fees	2,900	1,900
Interest on long term debt	<u>51,702</u>	<u>—</u>
	<u>318,432</u>	<u>252,472</u>
Net earnings before income taxes	2,358,496	2,385,892
Income taxes	<u>1,215,000</u>	<u>1,230,000</u>
Net earnings	<u>\$1,143,496</u>	<u>\$1,155,892</u>

The accompanying notes are an integral part of these financial
statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT AUGUST 31, 1965

1. For income tax purposes the company claims full costs of special tooling for current production as incurred and deducts the resulting deferred income taxes from unamortized costs.
2. The provisions of the 5¾% Serial Bonds impose certain restrictions on the payment of dividends. At August 31, 1965, earnings retained for use in the business of approximately \$1,750,000 were free from such restrictions. The net current assets, as defined, exceeded such restrictions by approximately \$1,000,000.
3. Commitments and contingencies
 - (a) Outstanding commitments for capital expenditures at August 31, 1965 amounted to approximately \$2,450,000.
 - (b) Unfunded past service costs under pension plans for employees are being amortized over a period of years and are estimated at approximately \$1,600,000 at August 31, 1965.

**KELSEY
WHEEL
COMPANY,
LIMITED**

309 ELLIS AVENUE, EAST • WINDSOR, ONTARIO

